



**REGULAR MEETING**  
**PUBLIC EMPLOYEES' RETIREMENT BOARD**

**FEBRUARY 26, 2004**

The regular meeting was called to order by President Teichrow at 8:30 a.m. Thursday, February 26, 2004. Roll call was taken with all members of the Board being present except Mr. Griffith, who was excused. Board members and staff present were:

Terry Teichrow, President  
Carole Carey, Vice President  
Betty Lou Kasten, Member  
Jay Klawon, Member  
Troy McGee, Member  
Jim Pierce, Member  
Kelly Jenkins, Counsel  
Melanie Symons, Counsel  
Mike O'Connor, Executive Director  
Linda Owen, Secretary

**OPEN MEETING**

Jim Christnacht, AMRPE; Tim Jones, Sue Winchester, and Nancy Quirino, Great-West Retirement Services; Terrence M. Smith, Big Sky County Water and Sewer District; Carroll South and Geri Burton, Board of Investments; Bob Bergren, Mike Anderson, Rick Ryan, Kurt Bushnell, Scott Moore, Dan Cotrell, Matt Norby, Chad Nicholson, members of the Montana State Firemen's Association; and Keith McCallum, Deputy Executive Director; Kim Flatow, Member Services Bureau Chief; Roxanne Minnehan, Fiscal Services Bureau Chief; Kathy Samson, Defined Contributions Bureau Chief; Ian Steel, Disability Claims Examiner; Carolyn Miller, Administrative Officer, PERA, joined the meeting.

**MINUTES OF OPEN MEETING**

The Executive Director presented the minutes of the open meeting of January 22, 2004. Mrs. Carey moved that the minutes of the previous open meeting be approved. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Public Comment** – Terry Smith addressed the Board regarding the cost to the DCRP members, the allocation of administrative costs, and the authority to classify those costs. President Teichrow pointed out it is the Board's intention to address these concerns at the next legislative session.

**BOARD OF INVESTMENTS – Annual Report** – Carroll South, Executive Director

Mr. South introduced Geri Burton, Deputy Director of the Department of Administration, who has worked with Mr. O'Connor on the INTERCAP loan for the Defined Contribution Plan. As the lender of the INTERCAP loan, Mr. South wants the Board of Investments (BOI) to be a part of the solution of paying back the loan. From his perspective, Mr. South stated he does not care if it takes 20 years to pay back the loan, as long as the PER Board pays the interest, and the principle when they can.

Mr. South addressed the components of the BOI Annual Report. He stated that the BOI has tried to invest with the mutual fund concept. They now have six mutual fund pools, which greatly diversifies the investments of smaller funds that invest in a larger pool. Those pools are: Retirement Funds Bond Pool (RFBP), Trust Funds Bond Pool (TFBP), Short Term Investment Pool (STIP), Montana Domestic Equity Pool (MDEP), Montana International Stock Pool (MTIP), and Montana Private Equity Pool (MPEP). Approximately 96% of pension investments are currently in one pool or another.

Conceptually and historically, the Teachers' and Public Employees' Retirement System pension plans have always wanted to build their fund balance because that is what pays benefits in the future. Mr. South noted that when he looked at the PERS annual increase and fund balance, he saw that it was the smallest increase since 1989. There is a direct relationship between annual income and the annual fund increase. The total rate of return does not pay benefits. Cash is needed for that. It is important to track this from year to year. Mr. O'Connor pointed out that the PER Board's actuary has done a cash flow analysis. Mr. South stated what he would add to that is the income component. It should be understood that the more equities a plan has, the smaller the income.

#### **EXECUTIVE DIRECTOR'S REPORT - Mike O'Connor**

**Investment Policy Statement Changes and Proposed Rule Amendments** – Investment Policy Statement changes were made to the 401(a) and 457 plans. However, before those changes can be effective, the administrative rules need to be changed. Ms. Symons prepared a memo explaining the process for changing a rule. A rule change hearing is scheduled for March 31, 2004.

Mr. Klawon made a motion to adopt the modified Investment Policy Statements for the 401(a) defined contribution retirement plan and 457 deferred compensation plan to be effective May 7, 2004 or upon completion of the rule-making process, whichever occurs later. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye, and Mr. McGee voting nay.

Mr. Klawon made a motion that the proposed amendments to rules relating to the 457 Plan's investment policy statement be noticed for amendment. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Mr. Klawon made a motion that the proposed amendments to rules relating to the 401(a) Plan's investment policy statement be noticed for amendment. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Actuarial Audit/Review RFP** – At the January meeting, the Board changed the weightings of how an RFP would be scored. The Teachers' Retirement System (TRS) had concerns with the change to the weightings and offered suggested changes that were agreed upon by the TRS and the Legislative Audit Division. The suggested weightings of each section are:

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- References – 20%
- Management, Staffing and Experience in Public Plan Reviews – 30%
- Technical Proposal and Work Plan – 20%
- Cost Proposal – 30%

Mr. McGee felt the cost proposal should be a higher percentage, but will accept the 30%. Mrs. Carey made a motion to amend the evaluation criteria weightings as recommended for the Actuarial RFP. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye and Mrs. Kasten voting nay.

**USERRA and Military Service Purchase Rules** – Mr. Klawon made a motion that the proposed USERRA rules be noticed for adoption with the proposed amendments. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Mr. Klawon made a motion that the rules relating to the purchase of active and reserve military service be noticed for adoption with the proposed amendments. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Clinton Rural Fire District** – The Clinton Rural Fire District is requesting that the Board accept the Annual Certificate filed on January 12, 2004 for the fiscal year 2003. The Annual Certificate was signed by the assistant fire chief and notarized (in the absence of the fire chief). The appropriate training documentation for FY 2004 was received on January 29, 2004.

Mr. Klawon made a motion that the Board uphold the staff determination that the Clinton Rural Fire District is eligible to receive credit and the members should receive credit for years of service as listed on the annual certificate for the year 2003. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Gore Hill Volunteer Fire Department** – The Gore Hill Volunteer Fire Department is requesting that the Board accept the Annual Certificates filed on August 13, 2003 for the fiscal years 1996 and 2002. The Annual Certificates were signed by the fire chief and notarized. Included was the appropriate training documentation.

Mr. Klawon made a motion that the Board uphold the staff determination that Gore Hill Volunteer Fire Department is eligible to receive credit and the members should receive credit for years of service as listed on the annual certificates for the fiscal years 1996 and 2002. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Interest Rate Determination** – Based on the Board's policy, the Executive Director proposed continuing with the present interest rate of 1.2% being credited to member accounts.

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Mr. Klawon felt keeping the interest rate the same does not adhere to the policy set up. He felt that 1.1% would be very fair in the present interest rate environment. Mrs. Kasten felt the Board was following the policy, but the non-vested members should be given a break. She felt the vesting period for the DC Plan is wrong and should be reconsidered in the future. Mr. O'Connor stated the interest rate does follow the policy, as there is allowance for some variance. The only time crediting a member's contributions with interest has an effect is when a member takes a refund,. Many of the people refunding have less than five years of service.

Mr. McGee felt the interest rate could be decreased. The Board needs to determine if there is a more equitable way to handle this than using just the short-term investment option. It appears that, at this time, Mr. O'Connor is following the policy as it is written. With interest rates as low as they are, with no indication of going higher at this point in time, a recommendation was made to keep the current interest rate on contributions at 1.20% because of the returns in STIP.

Mr. Klawon made a motion to not change the Interest Rate used to credit defined benefit members' accounts as recommended by the Executive Director and according to Board policy. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with five of the attending members voting aye and Mrs. Kasten voting nay.

**Out of State Travel Authorization** – Mr. Pierce made a motion to approve the out of state travel authorization for Mike O'Connor to attend the Spring Executive Committee Meeting of NASRA, in Lake Buena Vista, Florida, March 19-21, 2004. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Mr. Klawon made a motion to approve the out of state travel authorization for Roxanne Minnehan and Linda Jensen to attend the annual GFOA (Government Finance Officers Association) Conference in Milwaukee, Wisconsin, June 11-17, 2004. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Mr. Klawon made a motion to approve the out of state travel authorization for Linda Miller to attend Novell's BrainShare Conference in Salt Lake City, Utah, March 20-27, 2004. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**City of Columbia Falls** – A city can be covered under the Firefighters' Unified Retirement System (FURS), if they pass a resolution. The city of Columbia Falls has passed a resolution to cover their paid firefighters under FURS, effective March 19, 2004. Mr. Klawon made a motion to accept the city of Columbia Falls' request to cover their paid firefighters under the Firefighters' Unified Retirement System. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Board Review of Policies** – Last month the Board approved the staff's work plan to review all policies. Ms. Symons provided a work plan addressing what the committee is currently working on. Attachments included a resolution establishing the personnel policies required by state or federal law for the Public Employees' Retirement Division, effective July 1, 1997. She also included a listing of the current state policies that were adopted by the Department of Administration that are now in law.

Two charts were provided. One chart was a summary of the policies that apply to all state agencies and have been adopted by law. There is reference to whether that subject matter is addressed further, by either Board policy or by union contract. There was also a chart showing the internal DOA policies, which apply to the DOA, but not to administratively attached-to agencies. The committee will be preparing draft policies for Board review of items noted on the chart.

**DCRP Start-Up Loan** – Mr. O'Connor reported that the Department of Administration (DOA) has signed the INTERCAP Loan Agreement. The Board has entered into a Memorandum of Understanding (MOU) with the DOA. The purpose of the MOU is to establish the terms and conditions necessary to assure the DOA and the MPERB that each of them will meet their obligations with respect to the INTERCAP Loan secured by the DOA from the Board of Investments in 2004. Although the DOA would prefer a 15-year loan, Mr. O'Connor will approach the BOI about extending the loan to 20 years.

**Montana Deferred Compensation Plan Automation** – Ms. Samson reviewed the project work plan for the Deferred Compensation (457) Plan automation. There are five primary goals for this automation:

1. To automate manual processes.
2. To improved efficiency and eliminate duplicate processes.
3. To develop database which will maintain enrollment and member data, and ensure compliance with federal regulations.
4. To develop secure web-based employer reporting system.
5. To allow for increasing number of employers contracting under the 457 plan.

Ms. Samson reviewed the timeline, with a June 1, 2004 production "go live" date. This would be for the database to be in production and for the web-based employer reporting to be ready to go.

**Operational Summary Report** - The Executive Director presented an operational summary report for the month of January 2004, answering any questions Board members had.

**Legislation** – Mr. O'Connor advised the Board that all agency bills must be submitted to the Governor's Office by April 16, 2004. There are still funding issues with the Game Wardens' and Sheriffs' Retirement Systems. The contributions currently being collected are less than normal cost of the system.

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**The following portion of the meeting relates to matters of individual privacy. President Teichrow determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.**

## **CLOSED MEETING**

### **MINUTES OF CLOSED MEETING**

The Executive Director presented the minutes of the closed meeting of January 22, 2004. Mr. McGee moved that the minutes of the previous closed meeting be approved as amended. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Mr. McGee reiterated his concern from the January 22, 2004 meeting, to have staff research the possibility of duplicating important forms or receiving an acknowledgment of receipt, particularly for irrevocable elections. This is a continuous problem and needs to be addressed. It would help put the Board in a position where they could give fair determinations.

### **RETIREMENT REPORT - Ian Steel, Disability Claims Examiner**

**Disability Claims** - The Disability Claims Examiner presented the disability claims for Board consideration. Mrs. Carey made a motion for approval of the disability claims as recommended for Michael Martin, Lorri Sinerius-Lowery, and Deborah Parks, without annual review. Mr. Klawon seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Disability Reviews** - The Disability Claims Examiner presented the disability reviews to the Board. After discussion of all the reviews, Mrs. Carey made a motion to approve the disability reviews as recommended: to continue disability retirement and discontinue annual review for George Raymond, Barbara Lester, Alan Boehm, Roberta Hungerford, and Donald Disney. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Finalized Service/Disability Retirement Benefits, Monthly Survivorship/Death Benefits, and Funeral Benefits** - Applications for service retirements/finalized disability benefits, applications for monthly survivorship-death benefits, and applications for funeral benefits were presented to the Board. Mrs. Carey made a motion to approve the retirement benefits as presented. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

**Contested Case Report Update** - The Board Attorneys presented a contested matter status report update, speaking briefly on each case.

## **CONTESTED CASES**

**Alva Mello - Informal Reconsideration** – Mr. Mello requested a retirement estimate that was calculated inadvertently crediting him with purchasing service exceeding the limit of 19-2-903(2), MCA. He was advised of the correction and adjustment to correct the overpayment. Mr. Mello is asking to have the correction reversed and have the estimated amount paid to him.

Following a lengthy discussion, Mr. Klawon made a motion to approve the request of Mr. Mello to increase his monthly benefit by \$165 per month. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with four of the attending members voting aye, and Mrs. Kasten and Mr. McGee voting nay.

**Donna Kessler - Informal Reconsideration** – Ms. Kessler is currently on a regular PERS service retirement, effective October 2003. She requested information to apply for a disability retirement. It was determined that she is not eligible to apply for a disability retirement. She is asking the Board to reconsider their decision.

Mr. McGee made a motion that the Board allow Ms. Kessler to repay all retirement deposits made to her and establish her as not having retired, and she would then be eligible to apply for a disability retirement. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

## **Performance Appraisals**

**Melanie Symons** – Ms. Symons chose to stay and have a closed meeting regarding her performance appraisal.

**Kelly Jenkins** – Mr. Jenkins chose to stay and have a closed meeting regarding his performance appraisal.

**Mike O'Connor** – Mr. O'Connor chose to stay and have a closed meeting regarding his performance appraisal.

## **ADJOURNMENT**

There being no further business to come before the Board at this date, President Teichrow adjourned the meeting. The next meeting is tentatively scheduled for March 25, 2004, at 8:30 a.m. in Helena.